

**LOCAL AGENCY FINANCING CONTRACT, SERIES [SERIES]
(Equipment)**

Transaction No. _____

This Local Agency Financing Contract, Series [Series] (the "Financing Contract") is entered into by and between the state of Washington (the "State"), acting by and through the State Treasurer (the "State Treasurer"), and [Agency Name], a [Agency Type] of the State (the "Local Agency").

RECITALS

WHEREAS, certain State agencies (as defined in Appendix I hereto, "State Agencies") are authorized to acquire personal property used or needed by such State Agencies through financing contracts entered into pursuant to Chapter 356, Laws of Washington, 1989, codified as Chapter 39.94 of the Revised Code of Washington (the "RCW"), as supplemented and amended (the "Act"); and

WHEREAS, Chapter 291, Laws of Washington, 1998 supplemented and amended the Act to authorize the State to enter into financing contracts on behalf of certain local agencies (as defined in Appendix I hereto, "Local Agencies"), including the Local Agency, to finance the acquisition of personal property by such Local Agencies; and

WHEREAS, the State Treasurer has established a consolidated program providing for the execution and delivery of certificates of participation in such financing contracts, or in master financing contracts with respect thereto, in series from time to time in order to provide financing or refinancing for the costs of acquisition of such personal property by State Agencies and Local Agencies; and

WHEREAS, simultaneously with the execution and delivery hereof, the State is entering into a Master Financing Contract, Series [Series], dated as of the Dated Date (the "Master Financing Contract") with the Washington Finance Officers Association, a nonprofit corporation duly organized and existing under and by virtue of the laws of the state of Washington (the "WFOA"), to provide financing for the costs of acquisition of certain items of personal property by certain State Agencies and Local Agencies, including the Local Agency, under the terms set forth therein; and

WHEREAS, the State Treasurer and the Local Agency have determined that it is necessary and desirable to enter into this Financing Contract to provide financing or refinancing for the costs of acquisition of certain items of personal property, described in Exhibit B hereto (the "Property"), by the Local Agency; and

WHEREAS, the State Finance Committee has authorized the execution and delivery of this Financing Contract pursuant to Resolution No. 923 adopted on July 17, 2000; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and delivery of this Financing Contract do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the Parties hereto are now duly authorized to execute, deliver and perform their respective obligations under this Financing Contract;

NOW THEREFORE, in consideration of the mutual covenants and agreements contained herein and for other valuable consideration, the Parties hereto mutually agree as follows:

Section 1.1 Defined Terms. Capitalized terms used but not otherwise defined in this Financing Contract shall have the respective meanings given such terms in Appendix I hereto.

Section 1.2 Notice of Intent; Personal Property Certificate; Certificate Designating Authorized Local Agency Representative. The Local Agency has delivered a Notice of Intent to the State Treasurer in the form of Exhibit A attached hereto and incorporated herein by this reference. In order to evidence its acceptance of the Property financed and acquired pursuant hereto, the Local Agency has executed and delivered herewith, or will execute and deliver within 60 days from the Dated Date to the State Treasurer, a Personal Property Certificate in the form of Exhibit B attached hereto and incorporated herein by this reference. The Local Agency has delivered a Certificate Designating Authorized Agency Representatives to the State Treasurer in the form of Exhibit C attached hereto and incorporated herein by this reference. Said Certificate is currently in force and has not been amended, withdrawn or superseded, and the signatures shown thereon are true and correct originals of the signatures of the persons who hold the titles shown opposite their names. The signature of any one of the individuals shown on said Certificate is sufficient to bind the Local Agency under this Financing Contract with respect to any of the undertakings contemplated herein. The terms and provisions set forth in Appendix II hereto are incorporated herein and made a part hereof by this reference.

Section 1.3 Installment Sale and Purchase of Property. The State hereby agrees to sell, assign and convey, and does hereby sell, assign and convey to the Local Agency, and the Local Agency hereby agrees to purchase, acquire and assume, and does hereby purchase, acquire and assume, from the State, all of the State's right, title and interest in and to the Property and all proceeds and profits thereof and therefrom, subject to the security interest created pursuant to Section 2.5 of Appendix II hereof, and the Local Agency agrees to pay in consideration thereof the Purchase Price therefor and interest thereon and the Additional Costs in accordance with Section 1.4 hereof, and all other amounts required to be paid by the Local Agency hereunder, all in accordance with the provisions of this Financing Contract.

Section 1.4 Agency Installment Payments. In consideration of the sale of the Property and the covenants and agreements of the State in this Financing Contract, the Local Agency hereby promises to pay to the State the following amounts at the following times: (a) On each Agency Installment Payment Date, the Agency Installment Payment set forth in Exhibit D hereto, consisting of a Principal Component and/or an Interest Component as set forth in such Exhibit; and (b) All Additional Costs incurred by the State in connection with the sale of the Property to the Local Agency, the execution and delivery of the Certificates, and the observance and performance of the Series [Series] Agreements, within thirty (30) days following receipt of an invoice from the State with respect thereto which includes (i) a brief description of each such Additional Cost, (ii) the party to whom payment is due, (iii) the amount thereof, and (iv) such additional information as the Local Agency may reasonably request.

Section 1.5 Term. This Local Agency Financing Contract shall terminate on the date on which all amounts due hereunder shall have been paid or the payment thereof duly provided for pursuant to Section 4.1 of Appendix II hereof.

STATE OF WASHINGTON
OFFICE OF THE STATE TREASURER

[AGENCY NAME]
as Local Agency

By _____
Designated State Treasurer Representative

By _____
Authorized Agency Representative

Date [Dated Date]

APPENDIX II

LOCAL AGENCY FINANCING CONTRACT, SERIES [Series] (Personal Property)

(General Obligation/Nonvoted)

ARTICLE I

DEFINITIONS; CONSTRUCTION; MISCELLANEOUS PROVISIONS; SUPPLEMENTS

Section 1.1 Definitions, Construction, Miscellaneous Provisions, Supplements

Capitalized terms used but not otherwise defined in this Financing Contract shall have the respective meanings given such terms in Part 1 of Appendix I of this Financing Contract, which is incorporated herein and made a part hereof by this reference. This Financing Contract shall be construed in accordance with the Rules of Construction set forth in Part 2 of Appendix I of this Financing Contract, which is incorporated herein and made a part hereof by this reference. The miscellaneous provisions set forth in Part 3 of Appendix I are incorporated herein and made a part hereof by this reference. This Financing Contract may be supplemented and amended from time to time in accordance with Part 4 of Appendix I of this Financing Contract, which is incorporated herein and made a part hereof by this reference.

Section 1.2. Performance by Representatives. Any authority granted or duty imposed upon the State Treasurer or the State hereunder may be undertaken and performed by the Treasurer Representative. Any authority or duty imposed upon the Local Agency hereunder may be undertaken and performed by the Authorized Agency Representative.

ARTICLE II

SALE AND PURCHASE OF PROPERTY

Section 2.1 Conditional Sales Contract; Master Financing Contract.

(a) *Conditional Sales Contract.* This Financing Contract shall constitute a “conditional sales contract” and a “financing contract” within the meaning of the Act.

(b) *Master Financing Contract.* The Local Agency acknowledges and agrees that this Financing Contract is subject and subordinate in all respects to the terms and provisions of the Master Financing Contract.

Section 2.2 Appointment of Agents; Acquisition of Property.

(a) *Appointment of Agents.* The Local Agency hereby ratifies, approves and confirms, and accepts and agrees to, its designation and appointment as agent of the WFOA in connection with the acquisition of the Property.

(b) *Acquisition of Property.* The Local Agency hereby agrees that (i) it has caused or will cause the Property to be acquired, as agent for the WFOA, with all reasonable dispatch; (ii) it will make, execute, acknowledge and deliver any contracts, agreements, orders, receipts,

documents, writings or instructions with or to any Person and do all other things that may be necessary or desirable to acquire the Property; and (iii) it will pay or cause to be paid the Costs of Acquisition of the Property from funds available to it pursuant to this Financing Contract and the Master Financing Contract. The appointment of the Local Agency to act as agent of the WFOA in connection with the acquisition of the Property is made and conferred irrevocably by the WFOA, and shall not be terminated by any act of the Local Agency, the State Treasurer or otherwise.

The Local Agency shall negotiate or call for bids for the purchase of the Property in accordance with the requirements and limitations, if any, imposed by State or local law with respect to the purchase of such Property by such Local Agency. It is intended by the Parties hereto that neither the WFOA nor the State shall have any responsibility, liability or obligation with respect to the selection or procurement of any of the Property.

(c) *Revision and Substitution of Property.* The Local Agency, with the prior written consent of the State Treasurer, may revise any item of Property to be financed or refinanced and acquired pursuant hereto, or the description thereof; *provided*, that (i) such item of Property as so revised shall satisfy the requirements under this Financing Contract and the Master Financing Contract with respect to the substitution of Property previously acquired; (ii) the Costs of Acquisition of such item of Property shall not be materially reduced thereby; and (iii) any such revision shall not relieve the Local Agency of its obligation to acquire the Property in accordance herewith and with the Master Financing Contract.

After acquisition of an item of Property, the Local Agency, with the prior written consent of the State Treasurer, may substitute for an item of Property acquired pursuant to this Financing Contract other personal property by filing with the State Treasurer (i) a certificate of the Agency stating that such substitute Property (A) has a remaining useful life equal to or greater than the Property for which it is being substituted; (B) has a fair market value equal to or greater than the fair market value of the item of Property for which it is being substituted; (C) is free and clear of all liens and encumbrances except a first priority security interest in favor of the Fiscal Agent, as assignee of the WFOA, under the Master Financing Contract; (D) is of equal usefulness and value as the Property for which it is being substituted; (E) is essential to the Agency's ability to carry out its governmental functions and responsibilities; and (F) is expected to be used by such Agency immediately and for the term of this Financing Contract; and (ii) an Opinion of Counsel to the effect that such substitution will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code.

Section 2.3 Acquisition Fund. Pursuant to the Trust Agreement, the State Treasurer shall establish the Acquisition Fund and make disbursements therefrom in accordance with the provisions thereof and of the Master Financing Contract to pay the Acquisition Costs of the Property on behalf of the WFOA. Proceeds of the sale of the Certificates shall be deposited in the Acquisition Fund. Moneys on deposit in the Acquisition Fund shall be invested by the State Treasurer as provided in the Trust Agreement. Disbursements from the Acquisition Fund shall be made as provided in the Trust Agreement. The amount allocable to each Agency shall be established by the State Treasurer and shall be an amount not to exceed to the Acquisition Costs of its respective Property. The Local Agency shall file requisitions with the State Treasurer for the Acquisition Costs of the Property or reimbursement therefor in such form as the State

Treasurer shall reasonably require.

If moneys in the Acquisition Fund allocable to the Local Agency shall not be sufficient to pay the Acquisition Costs of the Property in full, the Local Agency shall cause the Acquisition Costs of such Property in excess of the allocable amount in the Acquisition Fund to be paid from other moneys of such Local Agency. Neither the State Treasurer nor the WFOA makes any representation or warranty, either express or implied, that the moneys which will be deposited into the Acquisition Fund allocable to the Local Agency will be sufficient to pay the Acquisition Costs of the Property. The State Treasurer and the WFOA shall have no obligation or liability for the payment of the Acquisition Costs of the Property other than from the proceeds of the Certificates and any other amounts that may be provided by the Local Agency. If the Local Agency shall pay or cause the payment of any Acquisition Costs in excess of the allocable amounts in the Acquisition Fund available for such purpose from other funds, the Local Agency shall not be entitled to any reimbursement from the State Treasurer or the WFOA for such payments, nor shall the Local Agency be entitled to any diminution, reduction, abatement, postponement, counterclaim, defense or set-off of the Agency Installment Payments, Additional Costs or other amounts otherwise required to be paid hereunder.

The Fiscal Agent, as assignee of the WFOA, shall have no responsibility, liability or obligation under the Master Financing Contract or otherwise with respect to the acquisition of the Property or payment of the Acquisition Costs thereof.

Section 2.4 Title to the Property. All right, title and interest in and to the Property shall transfer to and be vested in the Local Agency from the State without any further action by the Local Agency or the State immediately upon the acquisition thereof or reimbursement to the Local Agency for the Acquisition Costs thereof; *provided*, that the State Treasurer and the Local Agency shall take such action and execute such documents (including without limitation bills of sale and other title documents) as may be deemed necessary or desirable by the State Treasurer or the Local Agency to evidence and confirm such transfer of title pursuant to this Financing Contract.

Title to any and all additions, modifications, improvements, repairs or replacements to the Property shall be vested in the Local Agency, subject to the security interest of WFOA until payment of all amounts due and owing with respect to such Property under this Financing Contract.

Any Property constituting a motor vehicle subject to registration with the State Department of Licensing shall be registered with the Local Agency as the registered and legal owner thereof.

Section 2.5 Security Interests.

(a) *State Security Interest.* In order to secure the payment and performance by the State of its obligations under the Master Financing Contract, the State has pledged, granted, assigned and conveyed to the WFOA a lien on and security interest in all right, title and interest of the State, whether now owned or hereafter acquired, in and to the Property and this Financing Contract, including without limitation the Agency Installment Payments and all proceeds thereof.

The Local Agency acknowledges and agrees to such pledge, grant, assignment and conveyance, and hereby acknowledges that its right, title and interest in and to the Property is subject to such first priority lien and security interest.

(b) *Local Agency Security Interest.* In order to secure the payment and performance by the Local Agency of its obligations under this Financing Contract, the Local Agency hereby pledges, grants, assigns and conveys to the WFOA a lien on and security interest in all right, title and interest of the Local Agency, whether now owned or hereafter acquired, in and to the Property. Accordingly, this Financing Contract constitutes a security agreement. The Local Agency acknowledges and agrees that each provision of this Financing Contract is also a provision of the security agreement.

The Local Agency further agrees that the WFOA may: (i) commingle Property which comes into its possession; (ii) re-pledge such Property upon terms which impair the Local Agency's right to redeem such Property; and (iii) require the Local Agency to assemble the Property and make it available to the WFOA in a manner which is reasonably convenient to both Parties. To the extent the WFOA is required for any reason to provide commercially reasonable notice to the Local Agency, the State agrees that notice mailed by first class mail five days before the event of which notice is given is commercially reasonable notice. The standard by which the WFOA's rights and duties with respect to such security agreement shall be measured is gross negligence or willful misconduct.

If required by the WFOA or the Fiscal Agent, as assignee of the WFOA, at any time during the term of this Financing Contract, the Local Agency will execute and deliver to the WFOA or the Fiscal Agent, as the case may be, in form satisfactory to the WFOA or the Fiscal Agent, such security agreements, financing statements and/or other instruments covering the Property and all accessions thereto.

Section 2.6 Disclaimer of Warranties. The Local Agency acknowledges and agrees that the Property is of a nature, size, design and capacity selected by the Local Agency pursuant to its own specifications, and not by the State or the WFOA, and that neither the State nor the WFOA is a manufacturer, supplier or a vendor of such Property. THE STATE AND THE WFOA MAKE NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AND ASSUME NO RESPONSIBILITY, LIABILITY OR OBLIGATION, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR FITNESS FOR USE OF THE PROPERTY, OR AS TO THE TITLE THERETO, OR FOR THE ENFORCEMENT OF THE MANUFACTURERS', SUPPLIERS' OR VENDORS' REPRESENTATIONS, WARRANTIES OR GUARANTIES, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE PROPERTY. IN NO EVENT SHALL THE STATE OR THE WFOA BE LIABLE OR RESPONSIBLE FOR ANY INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES IN CONNECTION WITH OR ARISING OUT OF THIS FINANCING CONTRACT OR THE EXISTENCE, FURNISHING, FUNCTIONING OR USE BY THE LOCAL AGENCY OF THE PROPERTY.

The State hereby grants, assigns and conveys to the Local Agency during the term hereof, for so long as no Agency Event of Default, Event of Default or other event permitting

termination of this Financing Contract has occurred and is continuing hereunder, all representations, warranties and guaranties, if any, express or implied, with respect to the Property from the manufacturers, suppliers and vendors thereof, subject, however, to a reservation by the State and the WFOA of a right to independently enforce such warranties and guaranties.

No officer, employee or agent of any manufacturer, supplier or vendor is authorized to waive or alter any term or condition of this Financing Contract, and no manufacturer, supplier or vendor shall in any way affect the Local Agency's duty to pay and perform its obligations as set forth in this Financing Contract.

ARTICLE III AGENCY INSTALLMENT PAYMENTS; PAYMENTS BY STATE TREASURER; FULL FAITH AND CREDIT OBLIGATION

Section 3.1 Agency Installment Payments. Each Agency Installment Payment shall consist of a Principal Component and/or an Interest Component as set forth in Exhibit D to this Financing Contract. Interest shall accrue and be calculated as determined by the State Treasurer, which determination shall be binding and conclusive against the Local Agency absent manifest error. Each Agency Installment Payment payable hereunder shall be paid to or upon the order of the State Treasurer at such place as the State Treasurer shall direct in writing not less than ten (10) Business Days prior to the Agency Installment Payment Date by electronic funds transfer in lawful money of the United States of America. Payments of Additional Costs shall be made to or upon the order of the State Treasurer. Each Agency Installment Payment shall be applied first to the Interest Component due hereunder, and then to the Principal Component due hereunder.

Section 3.2 Sources of Payment of Agency Installment Payments.

(a) *Local Agency Financing Contract.* The Local Agency hereby acknowledges and agrees that the State is acquiring the Property from WFOA for and on behalf of the Local Agency. Concurrently with the execution hereof, the State shall execute and deliver the Master Financing Contract pursuant to which the State shall agree to make Installment Payments for the acquisition of the Property for and on behalf of the respective Agencies, at such times and in such amounts as provided therein, which will be sufficient in the aggregate to pay the Purchase Price of the Property to be acquired by the State for and on behalf of the Local Agency, together with all other personal property to be acquired for and on behalf of the other Local Agencies and the State Agencies, and interest thereon.

That portion of the Installment Payments that is allocable to the Purchase Price of the Local Agency Property and interest thereon shall be payable by the State solely from Agency Installment Payments to be made by the respective Local Agencies, including the Local Agency, except as otherwise provided in the Master Financing Contract. The obligation of the Local Agency to make its Agency Installment Payments shall be a direct and general obligation of the Local Agency to which the full faith and credit of such Local Agency is hereby pledged. The State shall not be obligated to pay that portion of the Installment Payments that is allocable to the Purchase Price of the Local Agency Property and interest thereon other than from Agency

Installment Payments paid by the respective Local Agencies, except as otherwise provided in the Master Financing Contract.

(b) *Intercept of Local Agency Share of State Revenues.* In the event that the Local Agency fails to make any payment due under this Financing Contract, the State Treasurer shall withhold an amount sufficient to make such payment from the Local Agency's share of State revenues or other amounts authorized or required by law to be distributed by the State to the Local Agency, including but not limited to leasehold excise taxes, sales and use taxes, excise taxes, property taxes, and liquor control board receipts; *provided*, that the use of any such revenues or amounts to make such payments is otherwise authorized or permitted by State law. Such withholding shall continue until all such delinquent payments have been made. Amounts withheld by the State Treasurer shall be applied to make any such payment due under this Financing Contract on behalf of the Local Agency, or to reimburse the State Treasurer for any such payment made pursuant to Subsection 3.2(c) hereof. The Local Agency hereby authorizes, approves and consents to any such withholding.

(c) *Conditional Payment of Local Agency Installment Payments.* Upon the failure of the Local Agency to make any Agency Installment Payment at such time and in such amount as required pursuant to this Financing Contract, the State Treasurer shall, to the extent of legally available appropriated funds and subject to any Executive Order reduction, make such payment into the Agency Installment Payment Fund, defined below, on behalf of such Local Agency within ten (10) Business Days after such Agency Installment Payment Date. The Local Agency shall reimburse the State for such payments made on its behalf immediately thereafter and in any case not later than ten (10) Business Days after such Agency Installment Payment Date, together with interest thereon at a rate equal to the State Reimbursement Rate. Anything herein to the contrary notwithstanding, failure of the Local Agency to reimburse the State for any such payment shall not constitute an Agency Event of Default hereunder, but the State may institute such legal action and pursue such other remedies against the Local Agency as the State deems necessary or desirable, including, but not limited to, actions for specific performance, injunction and/or the recovery of damages.

(d) *Payments by Local Agency Treasurer.* The treasurer of the Local Agency is hereby authorized and directed to establish and/or maintain a special fund in the "bonds payable" category of accounts of the Local Agency for the purposes of paying the Local Agency's Agency Installment Payments and Additional Costs. The treasurer of the Local Agency is hereby further authorized and directed to remit each payment of Agency Installment Payments to the State Treasurer or its assignee on each Agency Installment Payment Date and any Additional Costs when due hereunder. Such payment shall be made from any legally available funds of the Local Agency.

Section 3.3 Deposit and Investment of Agency Installment Payments. The Local Agency hereby acknowledges and agrees that the Agency Installment Payments shall be deposited in a special fund or funds maintained by the State Treasurer (the "Agency Installment Payment Fund"). Payments of Agency Installment Payments from State Agencies shall be separately accounted for from payments from Local Agencies. The Agency Installment Payments due on each Agency Installment Payment Date shall be at least sufficient, in the aggregate, to make the Installment Payment next coming due under the Master Financing

Contract. Amounts in the Agency Installment Payment Fund, including investment earnings thereon, shall be used and applied, *first*, to make the Installment Payment next coming due, *and thereafter*, but prior to the next Agency Installment Payment Date, to the extent that amounts remain in such Fund after such Installment Payment is made, to pay Additional Costs or for any other lawful purpose of the State Treasurer. Amounts in the Agency Installment Payment Fund shall be invested in Qualified Investments, and shall be separately accounted for, but may be commingled with other moneys on deposit with the State Treasurer solely for investment purposes. The Local Agency shall have no right, title or interest in or to the amounts on deposit from time to time in the Agency Installment Payment Fund.

Section 3.4 No Set-Off. The obligation of the Local Agency to make Agency Installment Payments from the sources set forth herein and to perform its other obligations hereunder shall be absolute and unconditional. The Local Agency shall make Agency Installment Payments as and when the same shall become due without diminution, reduction, postponement, abatement, counterclaim, defense or set-off as a result of any dispute, claim or right of action by, against or among the State, the WFOA, the Fiscal Agent, any Agency, and/or any other Person, or for any other reason; *provided*, that nothing in this Section 3.4 shall be construed to release or excuse the State from the observance or performance of its obligations hereunder. If the State shall fail to observe or perform any such obligation, the Local Agency may institute such legal action and pursue such other remedies against the State as the Local Agency deems necessary or desirable, including, but not limited to, actions for specific performance, injunction and/or the recovery of damages.

Section 3.5 Assignments by WFOA. The Local Agency acknowledges and agrees that, concurrently with the execution and delivery hereof, the WFOA will unconditionally grant, sell, assign, transfer and convey to the Fiscal Agent without recourse (i) all of its rights to receive the Installment Payments under and pursuant to the Master Financing Contract, (ii) all of its remaining right, title and interest in, to and under the Master Financing Contract and this Financing Contract, and in and to the Property (including any security interest therein), including but not limited to its right to take all actions and exercise all remedies under and pursuant to the Master Financing Contract, pursuant to the Master Assignment in consideration for the payment by the Fiscal Agent to the State Treasurer, as agent of the WFOA, of the proceeds of the sale of the Certificates. The State and the WFOA have acknowledged and agreed that such grant, sale, assignment, transfer and conveyance by the WFOA is intended to be a true sale of the WFOA's right, title and interest, and that upon such grant, sale, assignment, transfer and conveyance, the WFOA shall cease to have any rights, duties or obligations under the Master Financing Contract or with respect to the Property, and the Fiscal Agent shall thereafter have all the rights, duties and obligations of the WFOA thereunder as if the Fiscal Agent had been the original party thereto, and, except where the context otherwise requires, every reference therein to the WFOA shall be deemed and construed to refer to the Fiscal Agent. Anything herein or therein to the contrary notwithstanding, such grant, sale, assignment, transfer and conveyance shall not confer any rights or impose any duties or obligations on the Fiscal Agent other than as expressly set forth in the Trust Agreement and the Master Assignment.

ARTICLE IV
OPTIONAL AND MANDATORY PREPAYMENT OF AGENCY INSTALLMENT
PAYMENTS

Section 4.1 Optional Prepayment.

(a) The Local Agency may, at its option, prepay all or any portion of its Agency Installment Payments then unpaid, in whole or in part on any date, by causing to be deposited with the State Treasurer money and/or Government Obligations in an amount sufficient for the State Treasurer to prepay or defease the portion of its Installment Payments corresponding thereto in accordance with Subsection 4.1(a) or 4.1(b) of the Master Financing Contract, and to pay any Additional Costs in connection therewith.

(b) The Local Agency shall provide the State Treasurer with not less than 60 days' prior written notice of its intention to prepay any of its Agency Installment Payments, which notice shall specify the date of the date of such prepayment, and the amount and the Agency Installment Payment Dates of the Agency Installment Payments to be prepaid. The State Treasurer shall notify the Local Agency within fifteen (15) Business Days after receipt of such notice from the Local Agency as to the amount required to be paid in connection with such prepayment or defeasance of the corresponding Installment Payments, including any Additional Costs in connection therewith. The determination by the State Treasurer of the amount to be paid by the Local Agency shall be binding and conclusive against such Local Agency, absent manifest error.

Section 4.2 Revision of Agency Installment Payments upon Optional Prepayment.

The Principal Components and Interest Components of the Agency Installment Payments due on each Agency Installment Payment Date on and after the date of any prepayment pursuant to Section 4.1 hereof, as set forth in Exhibit D hereto, shall be reduced by the State Treasurer to reflect such prepayment, in such amounts and on such Agency Installment Payment Dates as the Local Agency shall elect in its written notice to the State Treasurer, pursuant to Section 4.1(b) hereof.

Section 4.3 Discharge of Financing Contract. All right, title and interest of the State herein and all obligations of the Local Agency hereunder shall cease, terminate, become void and be completely discharged and satisfied (except for the right of the State Treasurer and the Fiscal Agent, as assignee of the WFOA, and the obligation of the Local Agency to have the moneys and Government Obligations so set aside applied to make the remaining Agency Installment Payments) when either:

(a) all Agency Installment Payments and all Additional Costs and other amounts due hereunder have been paid in accordance herewith; or

(b) (i) the Local Agency shall have delivered a written notice to the State Treasurer of its intention to prepay all of the Agency Installment Payments remaining unpaid; (ii) the Local Agency shall have caused to be deposited with the State Treasurer (A) moneys and/or Government Obligations in accordance with Section 4.1 hereof; and (B) an Opinion of Counsel to the effect that such actions are permitted hereunder, under the Master Financing Contract and

under the Trust Agreement and will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code; and (iii) for so long as any Agency Installment Payments remain unpaid, provision shall have been made satisfactory to WFOA and the Fiscal Agent for payment of all Additional Costs.

ARTICLE V

REPRESENTATIONS, WARRANTIES, COVENANTS AND AGREEMENTS

Section 5.1 Representations and Warranties of the Local Agency. The Local Agency represents and warrants as follows:

(a) The Local Agency is a “Local Agency” within the meaning of the Act, duly organized and validly existing under the Constitution and laws of the state of Washington.

(b) The Local Agency is authorized under the laws of the state of Washington and its Charter or other constituent document, if any, to enter into and perform its obligations under this Financing Contract.

(c) Neither the execution and delivery by the Local Agency of this Financing Contract, nor the observance and performance of the terms and conditions hereof, nor the consummation of the transactions contemplated hereby, conflicts with or constitutes a breach of or default under any agreement or instrument to which the Local Agency is a party or by which the Local Agency or its property is bound, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon the Property, except as expressly provided in this Financing Contract and the Master Financing Contract.

(d) The Local Agency has duly authorized, executed and delivered this Financing Contract.

(e) This Financing Contract is a valid and binding obligation of the Local Agency, enforceable against it in accordance with its terms, except as such enforceability may be affected by bankruptcy, insolvency, reorganization, moratorium and other laws relating to or affecting creditors rights generally, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases.

(f) The Property to be financed and acquired pursuant to this Financing Contract is essential to the Local Agency’s ability to carry out its governmental functions and responsibilities, and the Local Agency expects to make immediate and continuing use of such Property during the term of this Financing Contract.

(g) The useful life of the Property is equal to or exceeds the term hereof.

(h) The obligations of the Local Agency under this Financing Contract, together with all other outstanding indebtedness of the Local Agency, do not exceed any statutory or constitutional debt limit applicable to the Local Agency.

(i) The Local Agency makes no representation or warranty regarding the perfection of any security interest in the Property, the Master Financing Contract or this Financing Contract for the benefit of WFOA or the Fiscal Agent, as assignee of WFOA.

Section 5.2 Covenants and Agreements of the Local Agency. The Local Agency covenants and agrees as follows:

(a) *Preservation of Existence.* The Local Agency will do or cause to be done all things necessary to preserve its existence as a Local Agency within the meaning of the Act.

(b) *Budget.* The Local Agency shall take such action as may be necessary to include all the Agency Installment Payments and Additional Costs due hereunder in its annual budget and to make the necessary annual appropriations for all such Agency Installment Payments and Additional Costs.

(c) *Tax-Exemption.* The Local Agency shall not make any use of the proceeds of this Financing Contract or the Certificates or of any other amounts, regardless of the source, or of any property, and shall not take or refrain from taking any action, that would cause the Master Financing Contract or the Certificates to be “arbitrage bonds” within the meaning of Section 148 of the Code. The Local Agency shall not use or permit the use of the Property or any part thereof by any Person other than a “governmental unit” as that term is defined in Section 141 of the Code, in such manner or to such extent as would result in the loss of the exclusion from gross income for federal income tax purposes of the Interest Component of the Installment Payments under Section 103 of the Code. The Local Agency shall not make any use of the proceeds of this Financing Contract or the Certificates or of any other amounts, and shall not take or refrain from taking any action, that would cause the Master Financing Contract or the Certificates to be “federally guaranteed” within the meaning of Section 149(b) of the Code, or “private activity bonds” within the meaning of Section 141 of the Code, or “hedge bonds” within the meaning of Section 149 of the Code. To that end, for so long as any Agency Installment Payments remain unpaid, the Local Agency, with respect to such proceeds and other amounts, will comply with all requirements under such Sections and all applicable regulations of the United States Department of the Treasury promulgated thereunder. The Local Agency will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the Interest Components of the Installment Payments will not be included in gross income of the Owners of the Certificates for federal income tax purposes under the Code, and will take no action that would result in such interest being so included. The Local Agency shall comply with the applicable provisions of the Tax Certificate and Agreement.

(d) *Duties Imposed by Law.* To the extent permitted by law, the covenants, agreements and other obligations on the part of the Local Agency contained herein shall be deemed and construed to be ministerial and non-discretionary duties imposed by law, and it shall be the duty of the Local Agency and each and every public official to take such actions and to do such things as are required by law in the performance of the official duties of such officials to enable the Local Agency to observe and perform the covenants, agreements, terms, conditions and other obligations contained herein to be observed and performed by the Local Agency.

(e) *Liens; Sale or Disposal.* The Local Agency shall not create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property, except the rights of WFOA as provided herein and in the Master Financing Contract. The Local Agency shall promptly, at its own expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim if the same shall arise at any time. The Local Agency shall not grant, sell, transfer, assign, pledge, convey or otherwise dispose of any of the Property or any interest therein during the term of this Financing Contract, and any such attempted grant, sale, transfer, assignment, pledge, conveyance or disposal shall be void.

(f) *Performance.* The Local Agency shall punctually pay the Agency Installment Payments and any Additional Costs in strict conformity with the terms and provisions hereof, and will faithfully observe and perform all the covenants, agreements, terms, conditions and other obligations contained herein required to be observed and performed by the Local Agency. The Local Agency will not suffer or permit any default to occur hereunder, or do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted, or any such omission or refraining from doing anything, would or might be grounds for acceleration or termination of this Financing Contract. The Local Agency will not terminate this Financing Contract for any cause, including but not limited to any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Property, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of the State, or any failure by the State or the WFOA to observe or perform any covenant, agreement, term, condition or other obligation contained herein or in the Master Financing Contract required to be observed and performed by it, whether express or implied, or the bankruptcy, insolvency, liquidation or reorganization of the WFOA. The Local Agency assumes the entire risk of loss, from any and every cause whatsoever, to the Property.

(g) *Further Assurances.* The Local Agency will preserve and protect the rights of the State Treasurer hereunder, and will warrant and defend such rights against all claims and demands of all Persons. The Local Agency will promptly execute, make and deliver any and all further assurances, instruments and agreements, and do or cause to be done such other and further things, as may be necessary or proper to carry out the intention or to facilitate the performance hereof and for the better assuring and confirming to the State Treasurer the rights and benefits provided to it hereunder.

(h) *Pledge of Funds and Credit of Local Agency.* The obligations of the Local Agency under this Financing Contract constitute a debt and a general obligation of the Local Agency, and a contracting of an indebtedness by the Local Agency, to which the full faith and credit of the Local Agency are hereby pledged. If and to the extent authorized by law, the Local Agency hereby covenants and agrees that it will levy taxes in such amounts and at such times as shall be necessary, within and as a part of the tax levy, if any, permitted to the Local Agency without a vote of its electors, to provide funds, together with other legally available moneys, sufficient to make the Agency Installment Payments and the other payments required under this Financing Contract.

(i) *Use of Property.* During the term of this Financing Contract, the Local Agency will use the Property for the purposes of performing one or more of its essential governmental functions or responsibilities. The Local Agency will not permit the Property to be used or operated other than by authorized employees, agents and contractors of the Local Agency.

(j) *Notice of Nonpayment.* The Local Agency shall give written notice to the State Treasurer, the WFOA and the Fiscal Agent, as assignee of the WFOA prior to any Agency Installment Payment Date if the Local Agency knows prior to such date that it will be unable to make the Agency Installment Payment due on such date, or any portion thereof.

(k) *Financial Statements.* The Local Agency shall prepare annual financial statements and obtain audits thereof as required by law. Upon the Written Request of the State Treasurer, the Local Agency shall provide the State Treasurer with a copy of its most recent audited and unaudited financial statements.

(l) *Use; Repairs.* For so long as the Local Agency is in possession of the Property, the Local Agency shall be solely responsible for the maintenance and repair, both ordinary and extraordinary, thereof. The Local Agency will (i) keep and maintain the Property in good repair, working order and condition, and protect the same from deterioration other than normal wear and tear; (ii) cause the Property to be used within its normal capacity, in the manner contemplated by the manufacturer's specification, and in compliance with the requirements of applicable laws, ordinances and regulations, the requirements of any warranties applicable thereto, and the requirements of any insurance or self-insurance program required under Subsection 5.2(q) hereof; (iii) cause the Property to be used and operated by or under the direction of competent persons only, and obtain all registrations, permits and licenses, if any, required by law for the operation of the Property; and (iv) will pay all costs, claims, damages, fees and charges arising out of its possession, use or maintenance of the Property. The Local Agency, at its expense, will furnish all parts, mechanisms and devices required to operate and maintain the Property.

(m) *Alterations.* The Local Agency will not make any alterations, additions or improvements to the Property without the prior written consent of the State Treasurer unless such alterations, additions or improvements (i) maintain or increase the value of the Property; or (ii) may be readily removed without damage to the Property. All such alterations, additions or improvements shall be deemed to be a part of the Property and shall be subject to the terms and provisions of this Financing Contract.

(n) *Location; Inspection.* The Property will be located within the State. The State Treasurer, the WFOA and the Fiscal Agent, as assignee of the WFOA, will be entitled to inspect the Property during regular business hours upon at least one (1) Business Day's prior notice. The Local Agency hereby acknowledges, and consents and agrees to, the right of the State Treasurer, the WFOA and the Fiscal Agent to so inspect the Property.

(o) *Impositions and Charges.* If during the term of this Financing Contract, any Imposition is imposed or incurred in connection with the sale and purchase of the Property by the WFOA to the State, or by the State to the Local Agency, or the ownership, operation, possession or use of the Property by the WFOA, the State or the Local Agency, or the payment of the Agency Installment Payments by the Local Agency, or the payment of the Installment Payments

payable therefrom by the State, or any fines, penalties or interest imposed on or with respect to any of the foregoing, the Local Agency shall pay all such Impositions and charges when due. The Local Agency at its own expense may contest any such Impositions and charges until it obtains a final administrative or judicial determination with respect thereto, unless the Property is encumbered by any levy, lien or any other type of encumbrance because of the Local Agency's failure to pay such Impositions or charges. If the State Treasurer or the WFOA pays any such Impositions or charges for which the Local Agency is responsible or liable hereunder, the Local Agency shall reimburse the State Treasurer or the WFOA therefor as Additional Costs hereunder. If the State Treasurer or the WFOA pay any such impositions or charges for which the Local Agency is responsible or liable hereunder, the Local Agency shall reimburse the State Treasurer or the WFOA therefor as Additional Costs hereunder. The Local Agency shall hold harmless the State Treasurer and the WFOA from and against all such Impositions and charges during the term of this Financing Contract.

(p) *Risk of Loss; Damage; Destruction; Condemnation.* The Local Agency assumes all risk of loss of or damage to the Property from any cause whatsoever, and the obligation of the Local Agency to pay the Agency Installment Payments or to perform any other obligation under this Financing Contract shall in no way be released, discharged or otherwise affected for any reason, including without limitation (i) any defect in the condition, quality or fitness for use of, or title to, any portion of the Property, or (ii) any damage to, or abandonment, destruction, requisition, condemnation or taking of any portion of the Property. In the event of damage to any item of the Property, the Local Agency will immediately place the same in good repair, working order and condition as required by Subsection 5.2(l) hereof. If the Local Agency determines that any item of Property is lost, stolen, destroyed or damaged beyond repair, the Local Agency will either (x) replace the same with equipment of equivalent value and usefulness in good repair in accordance with Subsection 2.1(c) hereof, or (y) prepay all of its obligations for Agency Installment Payments and terminate its obligations hereunder in accordance with Subsection 4.3(b) hereof.

(q) *Insurance.*

(i) The Local Agency shall maintain, or cause to be maintained, in full force and effect, comprehensive general liability insurance with respect to the Property in such amounts as may be reasonably determined by the Local Agency from time to time but in any event not less than \$1,000,000 per occurrence, or such greater amount as the State Treasurer may reasonably require from time to time. Such insurance may be carried under a blanket policy with umbrella coverage. Such insurance shall cover any and all liability of the Local Agency and its officials, officers, employees and volunteers. Such insurance shall include (A) coverage for any accident resulting in personal injury to or death of any person and consequential damages arising therefrom; and (B) comprehensive property damage insurance.

(ii) The Local Agency shall maintain or cause to be maintained in full force and effect fire and extended coverage insurance covering the Property in such amounts and covering such risks as the Local Agency may reasonably determine from time to time but in any event not less than the aggregate amount of Agency Installment Payments due hereunder which remain unpaid. Such insurance may be carried under a policy or

policies covering other property of the Local Agency. In the alternative, the Local Agency may assume financial responsibility for any physical damage to and/or loss of the Property; *provided, however*, that if the Local Agency elects this option, the Local Agency hereby covenants and agrees that it will promptly repair or replace the Property promptly upon any loss or damage thereto.

(iii) The insurance required under paragraphs (i) and (ii) above: (A) shall be provided by a financially responsible insurance company authorized to do business in the State; (B) shall name the State, the WFOA and the Fiscal Agent, as assignee of the WFOA, as additional insureds thereunder; (C) shall provide that the same may not be canceled or given notice of non-renewal, nor shall the terms of conditions thereof be altered, amended or modified, without at least 45 days' prior written notice being given by the insurer to the State Treasurer, the WFOA and the Fiscal Agent as assignee of the WFOA; and (D) may be provided in whole or in part through a funded program of self-insurance reviewed at least annually by an insurance actuary.

(iv) A certificate of insurance with respect to the required coverages shall be provided by the Local Agency to the State Treasurer on or prior to the date of delivery of the Personal Property Certificate to the State Treasurer.

(v) The Local Agency will pay or cause to be paid when due the premiums for all insurance policies required by this Section 5.2(q).

ARTICLE VI EVENTS OF DEFAULT; REMEDIES

Section 6.1 Agency Event of Default. Each of the following shall constitute an "Agency Event of Default" hereunder:

(a) Failure by the Local Agency to pay or cause to be paid any Agency Installment Payment required to be paid hereunder within ten (10) Business Days of the respective Agency Installment Payment Date;

(b) Failure by the Local Agency to observe or perform any covenant, agreement, term or condition on its part to be observed or performed hereunder, other than as set forth in paragraph (a) above, for a period of thirty (30) days after written notice from the State Treasurer or the Fiscal Agent to the Local Agency specifying such failure and requesting that it be remedied; *provided, however*, that such period shall be extended for not more than sixty (60) days if such failure cannot be corrected within such period, and the corrective action is commenced by the Local Agency within such period and diligently pursued until the failure is corrected;

(c) If any statement, representation, or warranty made by the Local Agency in this Financing Contract or in any writing delivered by the Local Agency pursuant hereto or in connection herewith is false, misleading, or erroneous in any material respect; and

(d) Inability of the Local Agency to generally pay its debts as such debts become due, or admission by the Local Agency, in writing, of its inability to pay its debts generally, or the

making by the Local Agency of a general assignment for the benefit of creditors, or the institution of any proceeding by or against the Local Agency seeking to adjudicate it as bankrupt or insolvent, or seeking liquidation, winding-up, reorganization, reimbursement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or for appointment of a receiver, trustee, or other similar officer of it or any substantial part of its property, or the taking of any action by the Local Agency to authorize any of the actions set forth above in this Section 6.1(d).

Notwithstanding the foregoing provisions of this Section 6.1, if by reason of *force majeure* the Local Agency is unable in whole or in part to carry out the covenants, agreements, terms and conditions on its part contained in this Financing Contract, the Local Agency shall not be deemed in default during the continuance of such inability. The term "*force majeure*" means the following: acts of God; strikes; lockouts or other industrial disturbances or disputes; acts of public enemies; orders or restraints of any kind of the government of the United States of America or any of its departments, agencies or officials, or of its civil or military authorities; orders or restraints of the State or of any of its departments, agencies or officials or civil or military authorities of the State; wars, rebellions, insurrections; riots; civil disorders; blockade or embargo; landslides; earthquakes; fires; storms; droughts; floods; explosions; or any other cause or event not within the control of the Local Agency.

The State Treasurer, with the prior written consent of the Fiscal Agent, may, at its election, waive any default or Agency Event of Default and its consequences hereunder and annul any notice thereof by written notice to the Local Agency to such effect, and thereupon the respective rights of the Parties hereunder shall be as they would have been if such default or Agency Event of Default had not occurred.

Section 6.2 Rights of State Treasurer Following Agency Default Event. Upon the occurrence and continuance of an Agency Default Event, the State, at its option, may exercise any one or more of the following remedies:

(a) By written notice to the Local Agency, require that the Local Agency promptly return possession and use of the Property to the State at any location specified in the United States (at the cost and expense of the Local Agency) in good repair, working order and condition, ordinary wear and tear excepted;

(b) By written notice to the Local Agency and the Fiscal Agent, declare an amount equal to all Agency Installment Payments to become due and payable hereunder, including but not limited to the Interest Components thereof accrued and unpaid, to be immediately due and payable, without further demand;

(c) Take whatever action at law or in equity may appear necessary or desirable to collect the Agency Installment Payments then due and thereafter becoming due, or to enforce the observance or performance of any covenant, agreement or obligation of the Local Agency under this Financing Contract; and

(d) exercise any other rights or remedies it may have hereunder or under applicable

law.

Section 6.3 No Remedy Exclusive; Non-Waiver. No remedy conferred upon or reserved to the State hereunder or under applicable law is intended to or shall be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Financing Contract or now or hereafter existing at law or in equity. No delay or omission to exercise any right or remedy accruing upon a default or an Agency Event of Default hereunder shall impair any such right or remedy or shall be construed to be a waiver of such default or Agency Event of Default, but any such right or remedy may be exercised from time to time and as often as may be deemed necessary or expedient. In order to exercise any remedy reserved to the State hereunder, it shall not be necessary to give any notice, other than such notice as may be required hereunder. A waiver by the State of any default or Agency Event of Default hereunder shall not constitute a waiver of any subsequent default or Agency Event of Default hereunder, and shall not affect or impair the rights or remedies of the State in connection with any such subsequent default or Agency Event of Default.

ARTICLE VII MISCELLANEOUS PROVISIONS

Section 7.1 No Local Agency Assignment. The Local Agency may not grant, sell, assign, transfer, convey, pledge, hypothecate or grant any security interest in any of its right, title or interest in, to or under this Financing Contract. Any attempted grant, sale, assignment, conveyance, pledge, hypothecation or security interest shall be void.

Section 7.2 Indemnification of State and WFOA. To the extent permitted by law, the Local Agency hereby releases the State and the WFOA from, agrees that the State and the WFOA shall not be liable for, and agrees to indemnify and hold the State and the WFOA and their respective directors, officers, officials, employees, and agents harmless from, any liability for any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever arising out of the ownership or operation of the Property or the acquisition, financing or refinancing thereof. The Local Agency agrees to indemnify and hold the State and the WFOA and their respective directors, officers, officials, employees, and agents harmless from any losses, costs, charges, expenses (including reasonable attorneys' fees), judgments and liabilities incurred by it or them, as the case may be, in connection with any action, suit or proceeding instituted or threatened in connection with the transactions contemplated by this Financing Contract or the exercise of rights or the performance of duties of the State or the WFOA under this Financing Contract, the Master Financing Contract or the other Series [Series] Agreements to which each of them is a Party, except to the extent caused by the gross negligence or willful misconduct of such indemnified party. The indemnification provided in this Section 7.2 shall survive the final payment of the Agency Installment Payments and the termination of this Financing Contract for any reason.

Section 7.3 Third Party Beneficiaries. The WFOA and the Fiscal Agent, as assignee of WFOA, shall be third party beneficiaries of this Financing Contract.

[Section 7.4](#) [Notices to Agency](#). The notice address for the Local Agency shall be as set forth in the Notice of Intent.

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